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Tobacco and Products

Annual

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Report Highlights:

Bulgarian tobacco production increased in 2001 to about 37,000 MT, however, overall exports continued to slide to about 17,000 MT. Imports were stable at 8,000 MT (virginia and burley). The forecast for 2002 is for higher production, a slight increase in exports and stable imports which could result in higher local stocks.
Cigarette production was stable, but cigarette exports were record low of 2,300 MT. There are expectations for an increase in cigarette exports in 2002 to 4,500 MT.
In 2002, the most important development in the tobacco industry will be the finalization of ongoing privatization of the national monopoly Bulgartabak. The GOB issued the first license to a foreign company for independent operations in tobacco trade.

Includes PSD changes: Yes
Includes Trade Matrix:Yes
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Executive Summary

In CY2001, Bulgarian raw tobacco production increased but the industry continued to struggle with tough competition in international markets, weak exports of tobacco and cigarettes, and high local tobacco stocks. Most local factories are not efficiently structured, and all of Bulgartabak's foreign joint ventures (cigarettes) worked at a loss.

Privatization of the state monopoly Bulgartabak started in May 2002 and should be completed by the end of the year. Due to unclear results of this privatization, it is not possible to forecast the future development of the tobacco industry. This report makes an effort to forecast basic industry development for 2002 based on the overall industry situation, GOB policy, and current managerial plans. However, it should be noted that depending on the results of Bulgartabak's privatization, the industry development may move in new directions. It is expected that privatization may change the size, number, the type and scope of work of major industry players.

In early 2002, the GOB issued the first license to a foreign company (Sokotab/Dimon) to operate independently in Bulgaria in the purchasing and export of tobacco. So far, foreign companies had to work via Bulgartabak's structures. This was the first step to break the monopoly of Bulgartabak in the history of Bulgarian tobacco trade..

In 2001 and 2002, the GOB revised industry legislation by increasing farm-gate prices and providing additional support for producers and traders via new producer bonuses for quality and new sales contracts. New higher cigarette excise duties and legislation was approved in late 2001.

In CY2002, production of all types of tobacco is likely to increase due to financial incentives from the government. However, the local cigarette industry will continue to import higher quality virginia and burley for production of American and Virginia blend cigarettes. This will further increase domestic tobacco stocks of lower quality tobacco if exports are not supported. Imports of these tobacco types should stabilize at about 6,000 MT to 7,000 MT per year.

Traditionally, tobacco and cigarettes have been a top foreign exchange earner for Bulgaria. However, soft exports of both tobacco and cigarettes in 2001 and the loss of traditional markets such as Russia have put new economic pressures on the GOB and the tobacco industry. Despite this significant decline in overall export and trade, Bulgaria continues to be a net exporter of tobacco and tobacco products due to hard currency revenues.

PSD Table, Tobacco, Total

PSD Table						
Country	Bulgaria					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Area Planted	28210	29920	34720	32460	0	37260
Beginning Stocks	32089	32089	23081	24158	25383	25861
Farm Sales Weight Prod	32225	32455	46600	40885	0	50210
Dry Weight Production	29249	28959	42232	37151	0	45748
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	6900	8283	6070	7874	0	6700
TOTAL Imports	6900	8283	6070	7874	0	6700
TOTAL SUPPLY	68238	69331	71383	69183	25383	78309
Exports	18429	18445	20400	16857	0	20500
Dom. Leaf Consumption	24228	24228	23300	24165	0	24700
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	2500	2500	2300	2300	0	2300
TOTAL Dom. Consumption	26728	26728	25600	26465	0	27000
TOTAL Disappearance	45157	45173	46000	43322	0	47500
Ending Stocks	23081	24158	25383	25861	0	30809
TOTAL DISTRIBUTION	68238	69331	71383	69183	0	78309

2000 and 2001 Import Trade Matrix, Tobacco Total

Import Trade Matrix			
Country	Bulgaria		
Commodity	Tobacco, Unmfg., Total		
Time period	2000	Units:	2001
Imports for:			1
U.S.		U.S.	76
Others		Others	
Zimbabwe	2962	Zimbabwe	1832
Brazil	2622	Brazil	2932
India	1422	India	1095
Italy	678	Italy	3323
China	1269	China	156
Argentina	528	Argentina	304
Greece	640	Greece	218
Cuba	210	Cuba	89
Malawi	198	Malawi	71
South Africa	186	Mexico	433
Total for Others	10715		10453
Others not Listed	683		555
Grand Total	11398		11084

2000 and 2001 Export Trade Matrix, Tobacco Total

Export Trade Matrix			
Country	Bulgaria		
Commodity	Tobacco, Unmfg., Total		
Time period	2000	Units:	2001
Exports for:			1
U.S.	2795	U.S.	2654
Others		Others	
Russia	5252	Russia	2629
Egypt	4282	Egypt	2376
Germany	1335	Germany	1477
Switzerland	548	Switzerland	1461
Greece	1300	Greece	958
Austria	471	Austria	929
Italy	217	Hungary	323
Hong Kong	231	Algeria	800
Japan	257	Japan	157
Indonesia	231	Lituinia	1081
Total for Others	14124		12191
Others not Listed	3486		4478
Grand Total	20405		19323

PSD Table, Oriental Tobacco

PSD Table						
Country	Bulgaria					
Commodity	Tobacco, Unmfg., Oriental				(HA)(MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Area Planted	19370	19240	24620	22920	0	28200
Beginning Stocks	18614	18614	5064	6325	1134	6017
Farm Sales Weight Prod	19823	19967	32000	29666	0	37200
Dry Weight Production	17840	18968	28800	28183	0	35340
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	49	186	70	286	0	200
TOTAL Imports	49	186	70	286	0	200
TOTAL SUPPLY	36503	37768	33934	34794	1134	41557
Exports	18075	18079	20000	16777	0	20197
Dom. Leaf Consumption	12164	12164	11800	11000	0	11000
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	1200	1200	1000	1000	0	1000
TOTAL Dom. Consumption	13364	13364	12800	12000	0	12000
TOTAL Disappearance	31439	31443	32800	28777	0	32197
Ending Stocks	5064	6325	1134	6017	0	9360
TOTAL DISTRIBUTION	36503	37768	33934	34794	0	41557

1999 and 2000 Import Trade Matrix, Oriental Tobacco

Import Trade Matrix			
Country	Bulgaria		
Commodity	Tobacco, Unmfg., Oriental		
Time period	2000	Units:	2001
Imports for:			1
U.S.		U.S.	
Others		Others	
Free Zone	170	Italy	57
Turkey	16	Turkey	14
		Brazil	59
		China	156
Total for Others	186		286
Others not Listed			
Grand Total	186		286

2000 and 2001 Export Trade Matrix, Oriental Tobacco

Export Trade Matrix			
Country	Bulgaria		
Commodity	Tobacco, Unmfg., Oriental		
Time period	2000	Units:	2001
Exports for:			1
U.S.	2717	U.S.	2512
Others		Others	
Russia	3060	Russia	890
Egypt	4282	Egypt	2376
Germany	1335	Germany	1477
Italy	217	Switzerland	1461
Greece	1300	Greece	958
Japan	257	Japan	157
Hungary	205	Hungary	323
Austria	471	Austria	929
Hong Kong	231	Algeria	929
		Lithuania	1081
Total for Others	11358		10581
Others not Listed	4004		3684
Grand Total	18079		16777

PSD Table, Flue Cured Tobacco

PSD Table						
Country	Bulgaria					
Commodity	Tobacco,Unmfg. Flue Cured				(HA)(MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Area Planted	6320	6530	7000	5890	0	5660
Beginning Stocks	11164	11164	15410	14968	19430	15085
Farm Sales Weight Prod	9896	9955	10500	8440	0	9010
Dry Weight Production	9104	7964	9660	6752	0	7208
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	5496	6195	5000	5059	0	4000
TOTAL Imports	5496	6195	5000	5059	0	4000
TOTAL SUPPLY	25764	25323	30070	26779	19430	26293
Exports	354	355	400	66	0	293
Dom. Leaf Consumption	9000	9000	9240	10628	0	11000
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	1000	1000	1000	1000	0	1000
TOTAL Dom. Consumption	10000	10000	10240	11628	0	12000
TOTAL Disappearance	10354	10355	10640	11694	0	12293
Ending Stocks	15410	14968	19430	15085	0	14000
TOTAL DISTRIBUTION	25764	25323	30070	26779	0	26293

2000 and 2001 Import Trade Matrix, Flue Cured Tobacco

Import Trade Matrix			
Country	Bulgaria		
Commodity	Tobacco,Unmfg.,Flue Cured		
Time period		Units:	
Imports for:			1
U.S.		U.S.	76
Others		Others	
India	1098	India	531
South Africa	90	South Africa	51
Zimbabwe	2490	Zimbabwe	1832
Brazil	2419	Brazil	2506
Germany	40	Germany	63
Italy	10		
Total for Others	6147		4983
Others not Listed	48		
Grand Total	6195		5059

2000 and 2001 Export Trade Matrix, Flue Cured Tobacco

Export Trade **Matrix**			
Country	Bulgaria		
Commodity	Tobacco,Unmfg.,Flue Cured		
Time period	2000	Units:	2001
Exports for:			1
U.S.		U.S.	
Others		Others	
Russia	295	Russia	52
Ukraine	38	Ukraine	14
Total for Others	333		66
Others not Listed	22		
Grand Total	355		66

PSD Table, Burley Tobacco

PSD Table						
Country	Bulgaria					
Commodity	Tobacco, Unmfg., Burley				(HA)(MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Area Planted	2515	4150	3100	3650	0	3400
Beginning Stocks	2311	2311	2607	2865	4819	4759
Farm Sales Weight Prod	2506	2533	4100	2779	0	4000
Dry Weight Production	2305	2027	3772	2216	0	3200
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	1355	1902	1000	2529	0	2500
TOTAL Imports	1355	1902	1000	2529	0	2500
TOTAL SUPPLY	5971	6240	7379	7610	4819	10459
Exports	0	11	0	14	0	10
Dom. Leaf Consumption	1864	1864	1260	1837	0	2000
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	1500	1500	1300	1000	0	1000
TOTAL Dom. Consumption	3364	3364	2560	2837	0	3000
TOTAL Disappearance	3364	3375	2560	2851	0	3010
Ending Stocks	2607	2865	4819	4759	0	7449
TOTAL DISTRIBUTION	5971	6240	7379	7610	0	10459

2000 and 2001 Import Trade Matrix, Burley Tobacco

Import Trade Matrix			
Country	Bulgaria		
Commodity	Tobacco, Unmfg., Burley		
Time period	2000	Units:	2001
Imports for:			1
U.S.		U.S.	
Others		Others	
India	324	India	564
Brazil	158	Brazil	366
Malawi	198	Malawi	71
Argentina	528	Argentina	304
Greece	160	Greece	218
Cuba	210	Cuba	89
Spain	113	Spain	150
Mexico	185	Mexico	433
		Italy	334
Total for Others	1876		2529
Others not Listed	26		
Grand Total	1902		2529

Tobacco

Production

According to preliminary information from the Union of Tobacco Growers and Manufacturers and the MinAg, the crop area under tobacco in CY2002 is expected to increase 15 percent compared to the previous year and to reach 37,300 HA. This change is due to an oriental tobacco area increase by 23 percent and a slight decline in area for virginia, 4 percent, and burley, 7 percent. This is a result of the GOB’s policy to support tobacco production and tobacco growers via higher farm gate prices, main and additional quality bonuses and financial target support (see policy section). Due to very favorable weather, yields are forecast to be higher than in CY2001 which will likely result in overall 23 percent (9,000 MT) increase in total tobacco production to 50,000 MT (farm weight).

In CY2001, tobacco area for oriental tobacco was 8 percent higher than in CY2000, mainly as a result of price incentives. Area planted to virginia and burley was reduced. In the spring of 2001, most tobacco farmers received advance payments from traders equal to 20 percent of the average annual tobacco price. Bonuses for the 2000 tobacco crop were paid at the end of May 2001. This provided better financial support to farmers who increased their planted area. Increased financing also improved input use and average tobacco yields rose in CY2001 compared to CY2000.

In CY2002, the GOB support for the tobacco industry increased in the form of higher producer prices and protection, bonuses and is expected to stimulate production and exports, especially for oriental tobacco. The MinAg’s goal is to reach a domestic production level of total 70,000 MT of all types of tobacco which will allow Bulgaria to access an enlarged export quota for the EU market. This is expected to happen when the country becomes a full EU member (by 2007).

All production data in attached PSD's are revised based on final data for CY2000 and preliminary statistical data for 2001. This data is used by the government "Tobacco Fund" which is made up of producers, traders and processors, and headed by the MinAg. Generally, the MinAg has more detailed information compared to official statistics (National Statistical Institute).

Production of Total Tobacco and By Types in CY2000 and CY2001 and forecast for CY2002									
	Crop Area, HA			Average Yields, MT/HA			Production, MT (farm sales)		
	2000	2001	2002*	2000	2001	2002	2000	2001	2002
Oriental	19,240	22,920	28,200	1,14	1,42	1.45	19,967	29,666	37,200
Virginia	6,530	5,890	5,660	1,68	1,58	1.76	9,955	8,440	9,010
Burley	4,150	3,650	3,400	1,03	0,10	1.29	2,533	2,779	4,000
Total	29,920	32,460	37,260	1,19	1,39	1.48	32,455	40,885	50,210

Crop Quality

Generally, the quality of the CY2001 tobacco crop was better compared to CY2000 due to favorable climate conditions and better input use. The percent of first grade tobacco was, reportedly, about 35 percent. In CY2000, drought and pests negatively affected quality and the first class tobacco was not more than 10 percent of total production (estimated).

In general, tobacco quality became a key issue due to the introduction of EU based quality standards which are more stringent than local Bulgarian standards. On the other hand, traders/exporters of oriental tobacco point to the quality issue as the major reason for low competitiveness of Bulgarian tobacco on the world market. Therefore, the policy in 2001/ 2002 was to stimulate production of higher tobacco quality (see production policy section).

Production Policy

The GOB policy on tobacco production in 2001/2002 had several major elements: input policy (planting seeds), tobacco purchase quotas, organization of the buying campaign, fixed farm-gate prices, bonuses for quality, target financial (price) support, soft term credits and technical assistance.

Purchase Quotas (state quota) - Every year in January, the MinAg announces the total quantities, varieties and origins of domestic tobacco available for purchasing by traders and users (cigarette factories). The goal of this policy is to stimulate tobacco production in certain regions and of specific varieties for social support. The production/purchasing quota determined for CY2001 was 12,000 MT higher compared to CY2000, with a large increase for oriental tobacco. However, the quota was used at about 65 percent in both years. Over the last 4 years, about 30-40 percent of the quota remained unused.

Reportedly, the purchasing quotas were not filled due to difficulties with tobacco exports. It is interesting to note that in 2001, the lowest purchasing quota was for virginia tobacco, 66 percent, due to high stocks (see PSD table for virginia). Therefore, traders and cigarette factories are trying to reduce purchases and to use of the current stocks.

The purchasing quota for the CY2001 harvest (for purchasing in CY2002) is 2 percent lower, 61,692 MT, compared to the previous year. However, quotas for certain origins such as "Harmanli, "Iztochen Balkan", "Krumovgrad" and "Severna Bulgaria" increased due to higher export demand. The MinAg expects higher use of this purchasing quota in 2002, about 81 percent.

Purchase Quotas in MT and Actual Purchased Quantities (in percentage) in CY1999 - CY2001 and forecast for CY2002

	Oriental		Virginia		Burley		Total	
	Quota	Percent	Quota	Percent	Quota	Percent	Quota	Percent
1999	36,735	69.8	12,790	84.2	2,660	78.9	52,185	73.8
2000	30,577	64.84	12,500	79.16	7,543	33.22	50,620	63.65
2001	43,201	68.66	12,732	66.28	7,295	38.09	63,228	64.66
2002	43,588	83.34	11,908	75.66	6,196	64.55	61,692	81.38

Prices and Bonuses (Tables #1,2,3)

Average **farm gate price** paid to growers of oriental tobacco from the 2001 crop was about 3.12 Bleva/kilo. The highest prices were paid for "Djebel" origin at 4.44 Bleva/kilo. The lowest price was paid for "Severna Bulgaria" origin at 2.21 Bleva/kilo. Burley tobacco was paid (on average) 1.96 Bleva/kilo or about 6 percent higher than in the previous year. Higher prices for burley tobacco is due to increased demand for the cigarette industry. Local cigarette factories have an interest in promoting burley production for their needs and are ready to pay higher prices. The situation with virginia type tobacco is the opposite. Locally grown virginia does not meet quality requirements for blending with other tobacco types in "American blend cigarettes". At the same time, virginia's production cost is high, yields are low, fuel expenses are high and the share of the first quality class is limited. This situation is not likely to change in the near future unless some investment in drying premises is done.

In January 2002, the GOB increased the minimum farm-gate prices for the 2002 crop. These new prices along with the start of the first large competitor (the U.S. company Sokotab) of the national monopoly Bulgartabak, is likely to lead to increased competition among traders, and higher prices for oriental tobacco for exports. For example, in 2002, Sokotab plans to pay higher-than-fixed prices for first grade tobacco of "Krumovgrad" origin i.e. 6.20 Bleva/kilo compared to the GOB price of 5.83 Bleva/kilo. Second grade tobacco will also be paid at a higher-than-fixed GOB price. As of March 2002, the average price paid by Bulgartabak was 3.24 Bleva per kilo compared to 2.80 Bleva in 2001.

The minimum farm-gate prices for the new 2002 crop are based on the requirements stipulated in the Tobacco Law (production costs, average tobacco yields for the last 5 years minimum profitability and international prices) and an inflation index for 2001 which was 4.2 percent. The increase for the first class oriental tobacco farm-gate pries is from 14.46 percent to 24.85 percent, while for the second class price increase range from 4.53 percent to 12.75 percent depending on the origin and type. These are percentages calculated by the Tobacco Fund based on the quantities for each origin and type. As with the GOB-set purchase quotas, price increases are greater for higher quality, specific regions and exported tobacco. There is no change in prices for third class tobacco. Virginia and burley third class tobacco will be purchased at lower prices than in 2001 (reduction of 29.09 percent for virginia, and 16.39 percent for burley). This structure of prices is to stimulate production of higher qualities.

Minimum farm-gate prices for the 2001 crop (paid out in 2001 and 2002) were from 6.0 percent to 11.5 percent higher compared to prices for the 2000 crop.

In 2000, the GOB introduced a **target financial support** (TFS) scheme for purchasing of the tobacco harvest (Decree #156 of March 27, 2000 based on the Tobacco Law art.19/2, Official Gazette #33). The TFS is a part of minimum farm-gate price scheme and reduce expenses for traders upon purchasing tobacco. The TFS covers on average 30 percent of the farm-gate price for oriental tobacco. For some origins and types, this percent is higher. For example, for "Djebel" origin/region oriental tobacco, TFS covers 54 percent of the price (see Table # 2). No TFS will be paid for any virginia and burley tobacco in 2002.

The TFS is paid directly to producers as a part of their overall price. Thus, tobacco buyers pay only the remaining portion of the price. If the tobacco buyers pay the full price to producers, the TFS is paid to buyers as a refund for the TFS portion. Because of this mechanism, the TFS payments often play the role of a hidden export subsidy.

Bonuses which paid to farmers for the 2001 crop are - on average - 0.25 Bleva/kilo higher compared to those for the 2000 crop. The highest is the bonus for "Djebel" origin at 1.70 Bleva/kilo compared to 1.50 Bleva paid a year ago. Bonuses for all other origins and types of oriental tobacco of the three quality classes are 1.25 Bleva/kilo. The virginia bonus is 1.50 Bleva/kilo, and the burley bonus is1.40 Bleva/kilo.

For the first time in 2002, the Tobacco Fund will start paying "quality bonuses" (see Table# 2) for the 2001 tobacco crop. These bonuses will be paid for the first and second quality class of oriental tobacco, and for the first class of virginia and burley tobacco in order to stimulate higher production of better quality tobacco leaves.

Ovrall funds allocated for tobacco growers in 2002 (for the 2001 crop) are expected to be 22 percent higher compared to the previous year. For example, the final price (see table #2, final price includes the minimum farm-gate price, bonus, and the additional quality bonus) for "Djebel" origin should be 8.42 Bleva/kilo for the 2001 crop compared to 7.15 Bleva/kilo for the 2000 crop. In 2001, bonuses paid to growers for the 2000 crop totaled 35,000 Bleva which was a 68 percent increase (of which 20,000 Bleva for the oriental tobacco the balance for big leaf tobacco). Actual final prices paid to farmers for the 2000 crop were 20-40 percent higher than in the previous year.

Production costs

According to MinAg and Tobacco Fund calculations, it is expected that production costs for the 2002 crop will increase by 25-30 percent. Independent experts, however, argue that these calculations are inflated so that higher government support will be provided. Changes in production costs are due to higher prices of inputs: fuel, plant protection chemicals, and irrigation water. For big leaf tobacco, the highest is the share of inputs (74 percent and 55 percent, respectively, for virginia and burley). For oriental tobacco, labor costs has the largest share in production costs. For example, the production costs of the most labor intensive tobacco "Djebel" consists of 55 percent expenses for hand harvesting and drying, 28 percent for growing; and 5 percent for growing seedlings or total labor cost accounts for 89 percent of total "Djebel" production cost. Actual final farm gate prices (minimum farm-gate plus bonuses and additional bonuses) paid to farmers for the 2001 crop allowed some producers to generate a net profit of over 100 percent. According to the MinAg, these are the profitability rate of some tobacco types:
"Krumovgrad" - 126 percent profitability;
"Ustina"- 105 percent;
"Dupnitza"- 104 percent;
"Djebel"- 32 percent;
"Virginia" - 82 percent;
"Burley" - 126 percent.

Purchasing Campaign

Bulgartabak, Dimon, Sokotab/Dimon, and the Greek company “Mihailidis” were the major players in the 2000 and 2001 purchasing campaigns. In early 2002, Sokotab was granted a license by the GOB to operate independently in purchasing tobacco. Prior to this decision, foreign companies had to buy via Bulgartabak contracts. It is expected that the first Sokotab warehouse/fermentation facility will be ready at the end of 2002 (near Plovdiv in south Bulgaria). Sokotab expressed interest to purchase 12,500 MT from the 2002 crop at 45 million Bleva, mainly oriental tobacco of "Krumovgrad" origin. As a result of Sokotab’s activity, the amount of purchased tobacco will increase in 2002 and new 350 workers will be hired by Sokotab alone. Since 1998, Sokotab was operating in Bulgaria via three Bulgartabak manipulation facilities. These factories were processing tobacco for Sokotab which then exported fermented tobacco on the world markets.

The GOB decision on Sokotab was the first step towards breaking Bulgartabak monopoly in the tobacco trade. There are 12 other companies operating in this business via contracts with Bulgartabak.

Bulgartabak plans to spend 97.5 million Bleva for the purchase of 2001 crop in 2002, for about 29,000 MT. Out of the total, Bulgartabak plans to purchase 2,500 MT burley tobacco for 5.0 million Bleva; 7,500 MT of virginia for 24.9 million Bleva and 19,000 MT of oriental tobacco for 67.6 million Bleva. In the past, Bulgartabak purchased over 90 percent of the local crop. Average Bulgartabak market shares in 1997-2001 in purchasing local tobacco were 65 percent for oriental tobacco; 94 percent for virginia; and 74 percent for burley.

Tobacco Fund

The latest changes in the Tobacco Law became effective January 1, 2002 as follows:

- The time frame for determination of bonuses will be October 31 for virginia tobacco, and March 31 for oriental tobacco and burley. Payments of these bonuses to producers will be done after the end of the purchasing campaign;

- There will be a new mechanism for closing contracts for buying tobacco from growers. Each producer will be granted a blue and yellow certificate for its individual production quota. When the farmer is closing a contract for purchasing of tobacco, he/she should attach the blue portion of the certificate to the contract. This way, the producers will not be able to close more than one contract for sales of the same quantity of produced tobacco.

- Minimum quality requirements for raw tobacco, and for processed or manipulated and fermented tobacco, were upgraded based on EU regulations;

- In March 2002, a special ordinance for industrial processing of tobacco was passed. According to this regulation, based on art. 39 of the Tobacco Law, licenses granted for industrial processing can be canceled when processors fail to meet basic terms of the contracts with regard to deadlines.

- In 2001, an ordinance for recognition of a tobacco growers' organization was passed. Such local organizations have to produce a minimum of 80 MT of tobacco or to have a minimum of 50 HA of cultivated land. The goal of this regulation was to facilitate future government support which will be directed not to individual grower but to growers organizations as it is done in the EU. The other goal was to support growers to apply for financing in EU-SAPARD funds which can be used only if growers are united in such organizations.

In 2002, the MinAg started working on the overall strategy for the development of the tobacco industry through 2005. The priorities are as follows:

- to increase production and to help sales of 65,000 - 70,000 MT;

- to invest in tobacco industry infrastructure and facilities and to provide financial support for increased production;
- to double tobacco exports;

-to improve the social status of tobacco growers;
- to increase income of tobacco farmers;
- to improve skills of tobacco farmers;
- to support the establishment of tobacco growers organizations.

In 2002, Bulgaria plans to ratify the WHO convention on tobacco control. This means that the GOB should undertake commitments on the continuous (and considerable) reduction of domestic tobacco consumption. This policy should include new excise taxes for tobacco products; a ban on duty free sales; limitation of smuggling; and an efficient system for licensing of retail traders of tobacco products.

In April 2002, Bulgaria closed the chapter on " Social Policy and Employment" in its negotiations with the EU. Based on this, Bulgaria should reduce the amounts of nicotine, tar and carbonic oxidants in cigarettes. One of the most important EU commitments is to reduce the tar content in the manipulated fermented tobacco to 10 mg.

Consumption

Consumption in the PS&D table was revised based on actual cigarette production and tobacco exports in CY2000 and CY2001. Industry demand for big leaf and semi-oriental (specific varieties) tobacco continued to increase to meet the growing local demand for American and Virginia blend cigarettes. It was estimated that the share of oriental tobacco in local cigarettes is declining. In CY1999, it was an average 55 percent vs. 30 percent for virginia and 15 percent for burley. In CY2000, these shares changed slightly to 50 percent for oriental tobacco vs. 37 percent for virginia and 13 percent for burley. In CY2001, these shares were estimated to be 45 percent; 44 percent and 11 percent, respectively for oriental, virginia and burley.

According to independent sources, locally manufactured cigarettes contain not more than 16,000 MT of locally grown tobacco and 8,000 MT to 10,000 MT of imported tobacco. Out of this total, oriental tobacco is 4,000 MT (all local); virginia is 8,000 MT (half local and half imported); burley 12,000 MT (half local and half imported). However, there si a strong trend toward local cigarettes to use more imported and less local tobacco, because of quality.

Domestic tobacco consumption in CY2001 decreased slightly by 1.0 percent, due to the decrease in cigarette production. In CY2002, consumption is expected to increase to 27,000 MT due to plans for expanded local cigarette production. In the total consumption category, oriental consumption is likely to decrease.

Trade

Data provided in the trade matrixes for CY2000 and CY2001 is based on final official data and is in metric tons. Trade data for total tobacco in the trade matrixes includes also "other tobacco and tobacco stems" which is higher than the total of oriental, virginia and burley trade and is not shown in the PSD table for total tobacco (since the PSD table should be a sum of the three major types of tobacco only). The difference is shown in the two tables below. As noted below, trade in stems, etc. is mainly with Russia (exports) and China (imports).

Trade in "other tobacco and tobacco stems" in 2000 and 2001 in MT by country					
	Export			**Import**	
	2000	**2001**		**2000**	**2001**
Russia	1,897	1,687	Italy	654	755
Georgia	118	96	China	1,269	1,320
Azerbaijan	169	150	Zimbabwe	472	605
USA	78	142	Brazil	45	342
Armenia	358	215	Greece	480	80
Total	3,139	2,466	Total	3,115	3,210

Exports of Imports of "Other Tobacco and Tobacco Stems" by Oriental, Virginia and Burley in 1999 - 2001 in MT			
	1999	2000	2001
Exports of "other"	3,605	3,139	2,466
Exports of Oriental	21,362	18,079	16,777
Exports of Virginia	37	355	66
Exports of Burley	0	11	14
Total Tobacco Exports all types incl. "other"/1	25,004	21,584	19,323
Total Tobacco Exports all types excl. "other"/2	21,339	18,445	16,857
Imports of "other"	1,436	3,115	3,210
Imports of Oriental	64	186	286
Imports of Virginia	4,232	6,196	5,059
Imports of Burley	1,729	1,902	2,529
Total Tobacco Imports all types incl. "other"/1	7,461	11,399	11,084
Total Tobacco Imports all types excl. "other"/2	6,025	8,284	7,874
Note: 1*/ data is in trade matrixes; 2*/ data is in the PSD total tobacco table			

Exports

In CY2001, overall exports declined (about 9 percent) due to the lower quality of oriental tobacco. This is the third subsequent year when tobacco exports have shown a downward trend. Traditional markets for Bulgarian tobacco continued to be the U.S. (2,512 MT), and Egypt (2, 376 MT). Other destinations were Germany and Switzerland with 1,470 MT each. A new market in 2001 was Lithuania with 1,081 MT. There was a considerable drop in exports to Russia, only 890 MT compared to 3,000 MT in 2000. The negative trend for exports to the U.S. and Russia will probably continue. This is related to lower demand for oriental tobacco on the world markets, high stocks and the lack of price competitiveness of Bulgarian oriental tobacco.

However, according to the MinAg, tobacco exports in 2002 should increase to the usual level of over 20,000 MT or by 4,000 MT compared to 2001. Exports of the "other tobacco" category is expected to be at the usual 3,000 MT, so total exports are forecast at about 23,500 MT.

For the first two months of 2002, tobacco exports totaled 4,026 MT of which 3,825 MT oriental tobacco. Major destinations are Algeria, 1,133 MT, USA, 1,006 MT, and Egypt, 587 MT. In 2002, Bulgartabak plans to export some stocks to its foreign facilities in Russia.

High stocks and oversupply on the world market will continue to keep export prices low in 2002. Competition from Greece, Brazil and Zimbabwe will keep downward pressure on export prices.

Average export prices in CY2001 were from $1.24/kilo to $3.32/kilo (calculated for exports of total 19,323 MT of tobacco, i.e. with "other tobacco" category included). The highest export price for oriental tobacco was registered for Germany at $3.32/kilo; Greece at $2.71/kilo; USA at $2.62/kilo. The lowest export price was registered for exports to Algeria at $1.74/kilo; and Russia at $1.24/kilo. These export prices are higher than those of other large world exporters. For example, China has average export prices of $2.08/kilo; Italy exports at $1.97/kilo; Malawi exports at $2.85/kilo; and Zimbabwe exports at $1.70/kilo.

Imports

Imports in 2001 declined slightly by 5 percent to 7,874 MT due to lower consumption for cigarettes and high domestic stocks. Imports in 2002 are not likely to exceed 7,000 MT, and will likely consist of virginia and burley combined. Traditionally, Bulgaria imports between 6,000 MT and 9,000 MT of virginia and burley tobacco. Virginia continues to be the primary imported tobacco followed by burley. As in 2000, major exporters of virginia tobacco to Bulgaria in 2001 were Brazil, Zimbabwe and India. For burley, the major exports were India, Argentina and Cuba. No changes in this pattern are expected in CY2002.

Locally produced virginia tobacco does not have the quality of imported virginia with regard to what is needed for manufacturing of American blend cigarettes. In addition, the price of local tobacco compared to similar imported tobacco from India, Greece, Italy and Spain is significantly higher. The percentage of first quality class Virginia is small, the yield is low, and expenses for drying are high (due to very outdated drying premises). Therefore, cigarette producers prefer to import virginia rather than use local supplies and thus produce better quality cigarettes. This leads to higher local stocks given the policy to stimulate production and the lack of export opportunities for local virginia.

Stocks

Data in the PSD tables for stocks were revised based on the latest MinAg data and industry information. Total ending tobacco stocks in 2001 are 7 percent higher than in 2000 due to increased production, decreased exports and flat consumption for cigarettes. In CY2002, ending stocks are forecast to further increase to 30,809 MT (or 35,500 MT including the "other tobacco" category, according to the MinAg).

Policy

Except for the Tobacco Fund, no specific GOB programs exist for the tobacco sector in CY2002 (see production policy). Most GOB efforts in the recent past were directed to support exports of tobacco and to assist farmers in their claims for unpurchased stocks of tobacco and to improve low farm-gate prices. It is interesting to note that the policy of production support has successfully caused on upward trend for higher production in the last three years. However, target financial supports still do not seem to have a positive effect on exports. Over the last three years, exports were declining. This continues to lead to growing stocks which maintenance is very costly.

Total GOB support for tobacco sector in 2000 and 2001 were as follows (published in the annual MinAg report in early 2002):
- free planting seeds for producers: 447,300 Bleva in 2000; 876,700 Bleva in 2001 or 96 percent increase;
-for payment of bonuses: 20,679,000 Bleva paid for the 1999 crop in 2000; 36,128,000 Bleva paid for the 2000 crop in 2001; plans for 45,000,000 Bleva to be paid for the 2001 crop in 2002;
-TFS - total 5,150,000 Bleva paid for the 1999 crop in 2000; 24,140,000 Bleva paid for the 2000 crop in 2001.

These amounts are much higher than subsidies for all other subsectors in agriculture which totaled 10,572,000 Bleva in 2000 and 17,000,000 Bleva for 2001. The GOB support for non tobacco agriculture is over 3 times lower when compared to the GOB's support for tobacco. In 2001, for example, overall support was 17 million versus 61 million dedicated to tobacco. These figures show the importance of the tobacco sector in overall agricultural policy in Bulgaria. According to press reports, the MinAg plans to increase total government assistance for the tobacco sector to 101 million Bleva in 2003 and to 135 million Bleva in 2005.

Privatization

Privatization of Bulgartabak was officially started in May 2002. The buyer should be selected by July 2002. The GOB is offering 51 to 80 percent of Bulgartabak shares to potential investors. About 13 percent of shares will be offered for sales on the public stock market. The remaining 7.16 percent share currently belong to various private holders. The GOB will keep a "golden stake" in Bulgartabak.

Current the Bulgartabak holding has 22 units of which 9 are cigarette factories and 13 are tobacco manipulation facilities. The holding structure also includes 8 factories abroad.

The GOB hopes to receive a minimum price of $100 million for Bulgartabak. Various estimates, from $80 to $145 million, have been published in the press. These estimates are much lower than those made several years ago which ranged up to $1.0 billion. However, there is an increasing understanding that the ultimate purchase price will not be the most important factor. Other factors such as commitment to purchase Bulgarian-grown tobacco, social support etc. will likely be critical issues for the Bulgartabak buyer to consider. Social issues in privatization will affect 12,000 workers currently in the tobacco processing industry and another 55,000 families, or 200,000 people, in tobacco production. The Bulgarian tobacco industry accounts for 6 of GDP and is estimated to be directly and indirectly affecting the everyday life of about 1.0 million people.

The Bulgartabak privatization has caused many political, social and economic debates. The GOB wants to sell Bulgartabak as a holding company producing both tobacco and cigarettes. Most foreign companies, however, prefer to invest in just one of the two subsectors. The more attractive is investment in the local cigarette industry, especially given the two best cigarette factories located in Sofia and Blagoevgrad. Potential investors have claimed that Bulgartabak is not revealing data about its financial status. The Bulgartabak also faces also a number of other problems described in detail below.

Political issues are related to ethnic Turks who compose the majority of tobacco growers. Their social support is also an element in this privatization. The political party representing most of these growers is currently in the ruling coalition. So far, the government recorded 5 offers for participation in Bulgartabak's privatization. Despite an increasing appeals for Bulgartabak's privatization to be postponed, due to lack of serious investors, it is not likely to be delayed. According to IMF and World Bank requirements, this privatization should be completed in the first half of 2002.

Bulgartabak's Financial Status: Analysts have stated that current financial status of Bulgartabak is not good. In CY2001, Bulgartabak registered a net profit of 3 million Bleva ($1.4 million) and sales of 357 million Bleva ($162 million). The holding is forecasting sales revenue in 2002 at 380 million Bleva and also higher profit. Reportedly, there is a discrepancy in final results of Bulgartabak's international and local auditing reports. The fact that the actual financial status is not clear contributes to difficulties in privatization.

The Bulgartabak holding is currently facing a number of problems such as:

Lower exports of cigarettes

In 2001, exports of cigarettes were record low at 2,300 MT. Bulgartabak is much more oriented to local cigarette market than to exports. This means that consumption of locally produced tobacco is declining due to the higher popularity of American and Virginia blend types, and due to the low quality of locally produced burley and virginia. At the same time, poor financials will not allow the holding to purchase oriental tobacco for export given the competition of other international companies in domestic market. Soft exports and the fact that practically all domestic cigarette production is sold locally, shows that Bulgartabak does not have any significant international/regional cigarette business as in the past. Although Bulgartabak has plans to increase cigarette exports in 2002 to 4,500 MT, it is doubtful that this goal will be reached.

- **High stocks of unsold and not consumed tobacco**.

There is no confirmed data about the exact quantities of tobacco stocks in Bulgaria. According to the press, as of January 1, 2002, surplus tobacco stocks were 18,000 MT (mainly found in the cigarette factory in Blagoevgrad). These stocks are in general 4-5 years old. Reportedly, if they are not sold soon, they will deteriorate and must be destroyed. Bulgartabak's idea is to sell these stocks either to the new buyer of Bulgartabak, or to export to factories in Russia in 2002. The pre-set price for these stocks was $19.6 million, at a reduction from $27 million in 2001. Reportedly, these stocks will negatively affect the price the GOB is seeking for Bulgartabak's privatization. It will also force the respective owner, (the cigarette factory in Blagoevgrad) to work at loss. These stocks are a result of the GOB policy for increased tobacco production but not improved quality.

- **Inefficient factories abroad**

Currently, Bulgartabak has 8 joint ventures, 5 in Russia: Sochi (capacity of 600 MT/month, venture with Plovdiv factory,), Belgorod (capacity 100 MT/month, venture with Stara Zagora cigarette factory), Tver, Kaliningrad (with Pleven factory), Podolsk (capacity of 1,200 MT/year, with Shoumen factory); and 3 in the Ukraine, Romania and Yugoslavia. Reportedly, total capacity is 21,300 MT, but most of them do not function due to financial problems. The only working factory in Russia is the one in Sochi, the rest are not in operation. The factory in Romania is closed Sales to the Russian market from the factories in Russia in 2001 were only 6,000 MT-7,000 MT. These were cigarettes from the lowest price category including the brands BT, MM, Rodopi, Stewardess, Femina and Inter. To date, all these factories have run at a loss, the 2001 deficit was about 10-12 million Bleva.

Bulgartabak is forecasting small profit of 2-3 million Bleva in 2002 from its foreign plants. The holding plans to increase sales in Russia to 12,000 MT in 2003 (using 8,000 MT-10,000 MT of Bulgarian tobacco); and to equalize the prices of the same brands produced at various factories abroad. Currently, the difference in price for "Rodopi" brand cigarettes produced and sold in Russia varies by 15 percent depending on the producing factory. Bulgartabak also plans to increase cigarette production in Yugoslavia (in Parachin) and to produce the brand "Charli" at 100 MT/month.

- **Official Russian government claims for compensations**

The Russian government claims compensation as reparations from the World War II. The claims cover shares in the two best cigarette factories; in 6 tobacco manipulation factories, or from 49 to 100 percent in various assets. In April 2002, the Russian government sent a special diplomatic note to the GOB to express these claims.

- **Production of counterfeit cigarettes**

In early 2002, Bulgartabak was involved in a scandal involing production of non-licensed cigarettes for an African country. One of Bulgartabak factories was reportedly producing (under contract) a brand which is not licensed in Bulgaria. This brand was exported to Africa. The same brand, however, was licensed for production under a contract with a different foreign company for the same export market and produced by a different local factory.

- **Restructuring of distribution system for cigarettes (see the cigarette section)**

- **Protection of patent rights on Bulgarian cigarette brands in the Russian market.**

In 1992, the Bulgarian cigarette brands Vega, Stewardess, Opal, Sluntze and Feniks were the most popular in Russia. These brands were registered in Rospatent (Russian Patent Office) as trade marks belonging to the Swiss company Selectinvest. In fact, this company was owned by a Bulgarian private citizen. Rights on these trade marks still belong to this company (in 2000, the rights were transferred to the Bulgarian company Bultabak, same owners). Currently, Bulgartabak expects the Russian court to announce a ruling on this case.

- **Promotion of new brands and trade marks and efforts to stabilize local sales (see the cigarette section)**

- **Restructuring of tobacco production with the goal to introduce new varieties, higher quality and higher production of Burley.**

Import regime

Since CY1999, trade in tobacco and tobacco products was liberalized. No registrations or permits are required. There are no import schemes, duty free quotas (except for those included in trade agreements with the EU, CEFTA and Turkey), etc. No export taxes are levied on raw tobacco or cigarettes.

Bulgarian TRQ for tobacco imported from the EU in CY2001 and CY2002:

Commodities	Import Duty
HS# 2401 10 10 0 to 2401 10 30 0	**7%**
HS# 2401 10 49 0 to 2401 10 90 0	**28%**
HS# 2401 20 10 0 to 2401 20 41 0	**7%**
HS# 2401 20 49 0 to 2401 20 90 0	**28%**
Total 6,000 MT	
Note: Lower duty is paid on big leaf tobacco and the higher duty is for oriental tobacco	

According to the CEFTA agreement, there is a TRQ for big leaf tobacco imported from Hungary - HS#2401 10 10 0 to 2401 20 20 0 - 1,000 MT at 5% duty. Since Hungary is not a traditional exporter of tobacco to Bulgaria, it is not expected that this quota will be used.

According to the free trade agreement with Turkey, the following preferences are granted for imports of tobacco products:
TRQ of 100 MT for the following products and duties:
HS#2401 10 10,20,30,41 and HS#2401 20 10,20,30,41 - 7% (big-leaf tobacco)
HS#2401 10 49,50,70,80,90 - 28%
HS# 2401 10 60 and HS# 2401 20 60 - 40% (oriental)
This quota is also not expected to be used since Turkey is exporting tobacco mainly to the EU countries where it enjoys a zero import duty.

2002 Tariff Code:

Commodity, HS#	Import Duty
HS#2401 10 10 0 - 41 0	**10%**
HS#2401 10 49 0 - 50 0	**40%**
HS# 2401 10 0 0	**60%**
HS#2401 10 70 0 - 90 0	**40%**
HS#2401 20 10 0 - 49 0	**10%**
HS#2401 20 49 0 - 50 0	**40%**
HS#2401 20 60 0	**60%**
HS#2401 20 70 0 - 90 0	**40%**
HS#2401 30 00 1	**5%**
HS#2401 30 00 9	**40%**

Export regime

Bulgaria was granted an export quota of 7,200 MT of tobacco to the EU between July 1 , 1999 and June 30, 2000. Only 50 percent of this quota was used. From July 1, 2000 to June 30, 2001, the quota was increased to 7,500 MT and the same size quota is in place from July 1, 2001 to June 30, 2002 (for HS# 2401 1060; 2401 10 70; 2401 20 60; 2401 2070). The duty within this quota for Bulgarian tobacco is 20 percent lower than the general MFN duty which is 2.2 percent. As of April, 2002, this quota is used at 32 percent. Tobacco was exported to Austria, Greece and Germany. The major reason for these exports is the keen competition on the EU market from Turkey and Greece. Turkey is granted a zero percent import duty. Greek average export prices are lower than Bulgarian export prices. The other reason is the diminishing demand for oriental tobacco due to increased production of American blend cigarettes. Therefore, Bulgarian exports to the EU are not truly profitable and do not allow full utilization of the tobacco quota.

Bulgaria also uses various export quotas for CEFTA countries as follows:

Country	HS#	Quota, MT	Duty in percent	Percent of use, 2001
Czech Republic	**2401 10 2401 20 2401 30**	**200**	**4.5% 4.5% 2.0%**	**13%**
Slovakia	**2401 10 2401 20 2401 30**	**100**	**4.5% 4.5% 2.0%**	**0%**
Hungary	**2401 10 60 2401 20 60**	**1,000**	**16.0%**	**32%**
Poland	**2401 10**	**200**	**15.3%**	**0%**
Romania	**2401**	**250**	**25%**	**36%**
Turkey	**2401 10 2401 20**	**100**	**15%**	**0%**

PSD Table, Cigarettes

PSD Table						
Country	**Bulgaria**					
Commodity	**Tobacco, Mfg., Cigarettes**				**(MIL PCS)**	
	Revised		**Preliminary**	**2001**	**Forecast**	**2002**
	Old	**New**	**Old**	**New**	**Old**	**New**
Market Year Begin		**01/2000**		**01/2001**		**01/2002**
Filter Production	**23728**	**23728**	**22600**	**25465**	**0**	**26500**
Non-Filter Production	**3000**	**3000**	**3000**	**1000**	**0**	**500**
TOTAL Production	**26728**	**26728**	**25600**	**26465**	**0**	**27000**
Imports	**1000**	**1000**	**1000**	**1000**	**0**	**1000**
TOTAL SUPPLY	**27728**	**27728**	**26600**	**27465**	**0**	**28000**
Exports	**8728**	**8728**	**7600**	**2300**	**0**	**4500**
Domestic Consumption	**19000**	**19000**	**19000**	**25165**	**0**	**23500**
TOTAL DISTRIBUTION	**27728**	**27728**	**26600**	**27465**	**0**	**28000**

2001 Import Trade Matrix, Cigarettes

Import Trade Matrix			
Country	**Bulgaria**		
Commodity	**Tobacco, Mfg., Cigarettes**		
Time period	**2001**	**Units:**	**metric tons**
Imports for:			**1**
U.S.	**15**	**U.S.**	
Others		**Others**	
Germany	**26**		
Greece	**6**		
Switzerland	**126**		
United Kingdom	**37**		
Zambia	**6**		
Total for Others	**201**		**0**
Others not Listed			
Grand Total	**216**		**0**

2001 Export Trade Matrix, Cigarettes

Export Trade Matrix			
Country	Bulgaria		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	2001	Units:	MT
Exports for:			1
U.S.	27	U.S.	
Others		Others	
Afganisan	421		
Mongolia	232		
Turkmenistan	232		
Israel	320		
Nigeria	358		
Arab Emirates	80		
Burkina Faso	104		
Georgia	77		
Czech Republic	53		
China	45		
Total for Others	1922		0
Others not Listed	400		
Grand Total	2349		0

CIGARETTES

Production

General

Production in the PSD table for CY2000 and CY2001 was revised based on final official figures provided by the government. Prospects for CY2002 are for slightly higher production based on increased cigarette exports and stable local sales. In 2001, Bulgartabak produced 26,465 MT of cigarettes. The forecast for 2002 production is 27,000 MT.

The largest share of the market belongs to the two best cigarette factories in the country:
in Sofia with 27 percent market share at 7,002 MT; and Blagoevgrad with 46 percent market share at 12,588 MT. Total Bulgartabak cigarette sales in the local market in 2001 were valued at 334 million Bleva. The forecast sales volume is for 380 million Bleva in 2002.

Price Regulations

In late 2001, the GOB increased excise duties for cigarettes from 30 to 40 percent. New excise labels will be required for "duty free" sales, and a new type of label is required to export cigarettes. Cigarettes with old excise labels are allowed to be sold locally through the end of April 2002. Regulations were written in such a way that wholesale traders were not able to sell old excise label cigarettes at new prices. Thus, unsold quantities had to be destroyed as of April 2002. Excise labels for "duty free sales only" will be introduced as of July 1, 2002.

New excise duties have reportedly increased average prices of Bulgarian cigarettes by 18-42 percent, and of imported cigarettes with 25-31 percent. It has been estimated that overall taxes on cigarettes including VAT, are about 90 percent.

Higher prices of cigarettes have led to various problems:

- according to new reports, higher priced locally manufactured cigarettes have made smuggled cigarettes more profitable and led to higher illegal imports in the first three months of 2002;
- Bulgartabak's sales declined in the first three months of 2002 as traders were afraid to buy the old excise label product. Most cigarettes were sold by consignment, with deferred payments, and with promotions so that larger stocks could be sold for less. For example, the BAT brands, Lucky Strike, Rothmans, Kim and Cartier, were sold in February 2002 at lower prices, or 4 packs were sold at a price of 3 packs.

- higher prices of the most popular cigarette brand Victory, made smokers to switch to a lower priced brand such as Sredetz. However, it was estimated that this shift in consumption lasts about 2-3 months and after that smokers reurn to their favorite brands despite the higher prices.

- exports of cigarettes were virtually stopped when the new excise labels for exports were not available after April 1, 2002. Reportedly, due to technical difficulties, the introduction of special excise labels for exports will be postponed.

Excise Duties in CY2002	
Products	**Excise Duty**
Filter Cigarettes	**0.002 Bleva (US$0.0011) per piece plus 40% (30% in 2001) of the sale price; 0.003 Bleva per piece plus 42% of the sale price in 2004**
Non-filter cigarettes	**0.001 Bleva (US$0.0004) per piece plus 15% (10% in 2001) of the sale price**
Cigars and Cigarillos	**2.0 Bleva per piece plus 10% of sale price**
Tobacco for Cigarettes	**4.5 Bleva (US$2.6) per 100 grams plus 10% of sale price**

Consumption

General

For the last four years, Bulgartabak claimed to sell 22,000 MT-25,000 MT of cigarettes to the local market which is 5,000 MT - 6,000 MT higher than the traditional consumption level on an annual basis. Higher local sales are explained by Bulgartabak and GOB officials to be the result of less smuggling. However, it is unlikely that such an increase is possible given the constant number of smokers. According to most industry experts, local consumption does not exceed 19,000 MT annually.

The data in the PSD Table is revised based on official figures for cigarette production and exports in CY2000 and CY2001. Consumption levels are estimated at 19,000 MT and unknown stocks or illegal trade are included in the export category since there is not a separate category for stocks. Imports as estimated to be about 1,000 MT which includes official imports shown in the import trade matrix and smuggling.

Various sources have different data for local consumption. In early 2002, Bulgaria was ranked (by international sources) as having the third highest cigarette consumption per capita in the world with 6.6 cigarettes per capita per day (19,300 MT annual country consumption), following only Japan and Greece. According to local MinHealth officials, annual per capita consumption in Bulgaria is 2,240 cigarettes (18,000 MT annual nation- wide consumption). According to local distributers, monthly consumption is 1,800 MT (or 21,600 MT annual country consumption).

Recent marketing studies have shown that the total number of smokers in the country is between 3 million and 4 million; with 2.8 million people being the most regular or habitual smokers.

Anti-smoking policy

According to the Bulgarian MinHealth, about 26,000 - 27,000 people get cancer annually due to smoking, and about 16,000 of them are dying. Roughly 50 percent of teenagers smoke. Approximately 52 percent of men and 30 percent of women are regular smokers.

In 2002, the MinHealth tried to promote anti-smoking thru awards and games. The campaign was not overly successful and only 8,000 people stopped smoking for a month.
A special national anti-smoking program was elaborated. According to this effort, each large city should have a medical office for people who decide to stop smoking. Currently, there are 4 such offices nation-wide. A new regulation was also passed (effective May 1), which calls for fines for smoking in a public place. Smoking is banned in and near all schools, hospitals and similar health and educational institutions. Smoking will be prohibited in most public places in 2003 and allowed only in special smoking zones.

Trade

Exports

Exports of cigarettes to Russia declined considerably and Bulgarian made cigarettes were replaced by competitive exports from Turkey, Greece and China. Data used in the trade matrixes is the official data for CY2001.

Imports

Official data for imports of cigarettes is in the trade matrixes. Reportedly, smuggling of imported cigarettes declined, so illegal imports are estimated to be about 800 MT-1,000 MT.

Trade Policy

Since 1999, Bulgaria is a full member of the Central European Free Trade Agreement. The following preferences are granted to CEFTA countries for imports of tobacco products: Slovenia -

HS# 2402 20 Cigarettes - TRQ of 30 MT at 50% reduction of the basic duty.

According to the free trade agreement with Turkey implemented in January 1999, the following preferences are granted for imports of tobacco products: HS#2402 Cigarettes - 200 MT at 28% or a minimum 5.39 ECU/1,000 PCE/pieces.

The tariff rates were revised in December 2000 and were valid throughout 2001 and 2002. The import duty on cigarettes is currently 50 percent or a minimum 9.6 EURO/1,000 pieces.
The excise duties were changed in December 2001 (see the table in the price section).

Marketing

Local market

Bulgartabak's local cigarette sales in 2001 were 24,967 MT out of total production of 26,460 MT or a decline of 8 percent in sales compared to 2000. The holding plans domestic sales at 22,500 MT in 2002 out of total production of 27,000 MT, due to higher cigarette prices.

Bulgartabak has more than 100 cigarette brands. In 2001, the most popular brand continued to be Victory with a 32 percent market share; and Sredetz with a 19 percent share. Other local brands include Melnik, MM, Femina, Nevada, Shipka, Arda, Tresor, BT and finally non filter cigarettes. Bulgartabak's total share of the Bulgarian cigarette market is estimated at 94 percent.

Market policies and trends:

- A new trend for the Bulgarian cigarette market is increasing demand for higher quality and more expensive cigarettes. For example in 1999, the share of cigarettes with a price over 0.75 Bleva/pack was 34.7 percent, then in 2001, this share was 42.7 percent.

- Another important trend is the increase of the market share for "light" cigarettes from 31.6 percent in 1999 to 56 percent in 2001. Therefore, Bulgartabak's policy is to continue to produce lower tar and nicotine content brands. Currently, the tar content in Bulgarian cigarettes is between 3 and 15 mg.

- A new marketing policy is to promote middle class cigarettes such as Nevada, Country, and Femina Slim.

- A new brand (Global) in the high price category, will be introduced in 2002. Promotion of the new brand will be addressed to consumers over 19 years old and with higher-than-average income.

Distribution

In 2002, Bulgartabak selected two Russian companies, Samos and Market Fort, as its distributors for the Russian market. Both companies are well known and experienced. Currently, the demand for the Russian market is 500 MT of cigarettes/month (about $ 3 million). Bulgartabak plans to increase these quantities to 700 MT/month which would result in an increase of the current Bulgarian share on the Russian market from only 1 percent to 3 percent (for cigarettes produced both in Bulgaria and in Bulgartabak factories in Russia). In addition, Bulgartabak increased the minimum sale price for Bulgarian cigarettes in Russia, from 3.5 rubles/pack to 4.5 rubles/pack. This is related to the new marketing strategy to enter a new price segment in the Russian cigarette market.

Distribution in Bulgaria was also subject to changes. In order to make distribution more transparent and flexible, Bulgartabak increased the minimum quantity per distributor per month to 5.0 MT (1.0-3.0 MT previously). This will hopefully consolidate small sized distributers. Currently there are about 200 distributors. New requirements include advance notification of distribution quantities; and 3 day advance payments before the actual delivery. Cigarette factories will continue to have the option to work with mupltiple distributers.

Promotion for exports

In Russia, the Bulgartabak plans to introduce new brands with higher prices and better quality. In 2002, the Russian market introduced new standards such as - tar content of max 14 mg in filter cigarettes; and 12 mg in non filter cigarettes; nicotine content should be maximum 1.2 mg and 1.3 mg, respectively. New brands such as Femina Slim (lower tar and nicotine content) will be promoted.

In Israel, Bulgartabak plans to increase exports to 400 MT and to continue to register annual sales increase of 10 percent. The major brands for sales include MM and Victory. In African countries, the plans are to sell larger volumes at lower prices. In early 2002, four factories (Stara Zagora, Chaskovo, Plovdiv and Assenovgrad) started producing cigarettes for the African market, or 120 MT in monthly exports. In the Near and Middle East countries, some initial marketing surveys showed good potential for MM and Victory brands. For Latin American countries, a special type of the brand was developed - short cigarettes with a 69 mm filter, in hard and soft packs, and with new package design. Transit markets (duty free shops, transit ports etc.) are inclreasingly popular sales outlets. Such successful market is the Czech Republic for the brands Femina, MM, BT and Victory. In 2002, the total Bulgartabak budget for promotion will increase to 6 million Bleva. A full half of this amount will be spent for promotions in Russia.

Table #1 . Minimum Farm-Gate Prices for the 1999 - 2001 harvest

Minimum Farm-Gate Prices for the 1999 - 2001 harvest									
	I class in USD/ kg			II class in USD/kg			III class in USD/kg		
	2000	2001	2002	2000	2001	2002	2000	2001	2002
Oriental by region									
Djebel	5.65	6.02	7.33	5.00	5.32	5.60	2.14	2.28	2.28
Nevrokop	4.75	5.05	5.78	3.60	3.83	4.01	1.66	1.77	1.77
Dupnitza	4.63	4.93	5.68	3.32	3.53	3.69	1.66	1.77	1.77
Melnik	4.46	4.75	5.47	3.32	3.53	3.76	1.66	1.77	1.77
Ustina	4.38	4.66	5.38	3.26	3.47	3.71	1.66	1.77	1.77
Harmanli	4.48	4.78	5.51	3.32	3.53	3.77	1.66	1.77	1.77
Krumovgrad	5.48	5.83	6.72	3.82	4.06	4.26	1.66	1.77	1.77
Tekne	4.29	4.56		3.20	3.40		1.66	1.77	1.77
Iztochen Balkan	4.59	4.88	5.63	3.53	3.75	3.97	1.66	1.77	1.77
Topolovgrad	4.48	4.78	5.51	3.32	3.53	3.77	1.66	1.77	1.77
Severna Bulgaria	3.10	3.30	4.12	2.35	2.51	2.83	1.66	1.77	1.77
Svilengrad	4.65	4.94	5.69	3.53	3.75	3.97	1.66	1.77	1.77
Srednogorska Iaka	4.38	4.66	5.38	3.32	3.53	3.78	1.66	1.77	1.77
Virginia	3.48	3.71	3.93	2.30	2.45	2.57	1.33	1.42	1.10
Burley	2.46	2.74	3.00	1.69	1.88	1.97	1.33	1.42	1.22

Note: The prices in USD can be calculated on the exchange rate of 2.0 Bleva for one U.S. dollar for CY2000, 2.18 Bleva for one U.S. dollar in CY2001, and about 2.2 Bleva/U.S. dollar in CY2002 (as of May 2002).

Table #2 . Bonuses and Target Financial Support to Farm-Gate Prices for the 1999 - 2001 harvest

CY1999			
	I class in Bleva/kg	**II class in Bleva/kg**	**III class in Bleva/kg**
Oriental by region			
Bonuses for all origins and regions	**0.36 - 0.65**	**0.27 - 0.58**	**0.19 - 0.25**
TFS	**1.20**	**1.20**	**1.20**
Final price with bonuses	**3.10 - 5.60**	**2.35 - 5.00**	**1.66 - 2.14**
Bonuses for Virginia	**0.74**	**0.49**	**0.28**
Final price with bonuses (no TFS)	**3.48**	**2.3**	**1.33**
Bonuses for Burley	**0.51**	**0.35**	**0.27**
Final price with bonuses (no TFS)	**2.46**	**1.69**	**1.33**
CY2000			
Oriental by region			
Bonuses for all origins and regions	**1.00 - 1.50**	**1.00 - 1.50**	**1.00 - 1.50**
TFS	**1.43 - 2.13**	**1.10 - 1.89**	**0.48 - 0.81**
Final price with bonuses	**4.10 - 7.15**	**3.35 - 6.50**	**2.66 - 3.64**
Bonuses for Virginia	**1.20**	**1.20**	**1.20**
TFS	**0.41**	**0.28**	**0.16**
Final price with bonuses	**4.68**	**3.50**	**2.53**

Bonuses for Burley	**1.00**	**1.00**	**1.00**
TFS	**0.39**	**0.26**	**0.21**
Final price with bonuses	**3.46**	**2.69**	**2.33**
CY2001			
Oriental by region			
Bonuses for all origins and regions	**1.25 - 1.70**	**1.25 - 1.70**	**1.25 - 1.70**
TFS	**0.41 - 3.28**	**0.30 - 2.52**	**No TFS**
Additional Bonuses for Quality	**0.70**	**0.30 - 0.35**	**No bonuses**
Final price with all bonuses	**6.00 - 8.42**	**4.06 - 7.37**	**3.02 - 3.98**
Bonuses for Virginia	**1.50**	**1.50**	**1.50**
Additional Bonuses for Quality	**0.60**	**No bonuses**	**No bonuses**
Final price with all bonuses (no TFS)	**5.81**	**3.95**	**2.92**
Bonuses for Burley	**1.40**	**1.40**	**1.40**
Additional Bonuses for Quality	**0.70**	**No bonuses**	**No bonuses**
Final price with all bonuses (no TFS)	**4.84**	**3.28**	**2.82**

Table #3. Target Financial Support/TFS as a Part of Farm-Gate Prices for the 1999 - 2001 Harvest.

Target Financial Support/TFS as a Part of Farm-Gate Prices for the 1999- 2001 Harvest.									
	I class in Bleva/kg			II class in Bleva/kg			III class in Bleva/kg		
	1999	2000	2001	1999	2000	2001	1999	2000	2001
Oriental, for all origins and regions	1.20	1.43 to 2.13	0.41 to 3.28	1.20	1.07 to 1.89	0.30 to 2.52	1.20	0.48 to 0.81	No
Virginia	No	0.41	No	No	0.28	No	No	0.16	No
Burley	No	0.39	No	No	0.26	No	No	0.21	No